

02/2022

Finnish Centre for Pensions, Studies

# Summary

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## Educational differences in extending working lives

### Trends in effective exit ages in 16 European countries

Extending working lives and delaying older workers' exit from the labour market have been among the cornerstone goals of recent pension reforms in most European countries. However, effective exit ages (i.e., the average age at which people permanently leave the labour market), continue to lag behind official retirement ages. This is because not everyone is capable of or willing to stay in work until the statutory retirement age. Especially older workers with a lower socioeconomic position tend to exit the labour market at an earlier age. More often than others, they suffer from unemployment, poor health and bad working conditions. There is little to motivate them to stay in work, and the demand for older workers with a lower socioeconomic position is lesser than for those with a higher socioeconomic position. While there is a large body of literature on socioeconomic differences in terms of labour market exit and extending working lives, little is known about how these differences compare across countries and have changed across time.

In this study, we analyse educational differences in effective exit ages in 16 European countries during the period 2003–2020. The calculation of effective exit ages is based on comparing labour force participation rates of subsequent narrowly defined age groups between two timepoints. This makes it a more accurate and dynamic indicator

of labour market exit than, for example, employment rates or labour market activity rates as such. This indicator is commonly used by the OECD and European Union institutions to compare exit from the labour market among the total population or by gender. To our knowledge, this study is the first to calculate effective exit ages by level of education for a large group of European countries.

We based our calculations of the effective exit ages on European Union Labour Force Survey (EU-LFS) microdata for the population aged 40 and older. We calculated the effective exit ages for the total population, by gender and education level: low, intermediate, and high. In addition, we used macrolevel data from Eurostat on educational attainment levels and labour force activity rates to sketch the context of the development of older workers' education levels and labour market participation in the countries under study.

### **Educational expansion and rising labour market activity among older workers**

We found that considerable educational expansion has taken place among the 45–64-year-olds in all countries included in this study, especially among women. Yet, differences in educational composition between countries and genders continue. Overall, increases in labour market activity of 50–64-year-olds can be observed, but the educational and gender gaps persist. Moreover, the educational gap in labour market activity tends to be larger among women. The gender gap in labour market activity rates is smaller among those with a high education.

### **Labour market exit was postponed in all countries**

The results show that the effective exit ages rose in all countries between 2003 and 2020. On average for all countries, the increase was around 2.5 years. However, there was substantial cross-national variation in the size of the increases and the levels of the effective exit ages in 2020. Despite large increases in some countries since 2003, the effective exit ages were relatively low in 2020 (e.g., Belgium and Poland). In other countries, such as Germany, Finland, the Netherlands and Norway, the low effective exit ages in 2003 became relatively high in 2020. In a few countries where they were already relatively high in 2003, such as Ireland, Sweden and Switzerland, increases by 2020 were more modest. Ireland, Portugal and Spain experienced temporary decreases of the effective exit ages, possibly due to the Great Recession of 2008.

### **Educational gaps in effective exit ages persist – the high-educated exit the labour market at a later age than the low-educated**

In almost all countries, the effective exit ages rose at each level of education. The only exceptions were for the low-educated in Ireland and Spain, who experienced a slight drop in 2020 compared with 2003–2004. Educational gaps in effective exit ages were persistent in almost all countries: the high-educated continued to exit the labour force at a later age than the low-educated, while those with an intermediate educational level occupied a position in between. For all 16 countries on average in 2020, the

high-educated exited the labour force at the age of 64.9. Those with an intermediate level of education exited 1.5 years earlier at age 63.4, while the low-educated retired 2.8 years earlier at age 62.1.

Although educational gaps were persistent across time, there was some cross-national variation in the sizes of the gaps and the changes therein. In 2003, relatively wide educational gaps in the effective exit ages were common. By 2020, the gaps had narrowed substantially in several countries, especially in Finland, Germany, and Sweden. The gaps were relatively narrow in the Netherlands, Ireland, Portugal and Spain in 2003 but had widened by 2020.

### **Rising effective exit ages do not necessarily coincide with narrowing educational gaps in labour market exit**

There were no obvious complementarities or trade-offs between the levels of effective exit ages and the sizes of the gaps between education levels. In other words, extended working lives in general neither worked as an automatic remedy against educational inequalities in labour market exit nor did they necessarily exacerbate inequalities. We found countries where longer working lives coincided with a narrowing of the educational gradient in labour market exit. This was especially the case in Finland, Germany and Sweden, and to a lesser extent in Hungary, Poland and Switzerland. Yet, there were also countries where labour market exit was deferred considerably but the educational gaps remained largely the same (e.g., Norway) or widened (e.g., the Netherlands). It was also possible to have the worst of both: continuously relatively low effective exit ages and wide gaps (e.g., in Austria and Belgium). Our finding that there were no countries that had both low effective exit ages and narrow gaps suggests that extended working lives might serve as a precondition for narrowing the educational gap.

### **Inequalities in extending working lives should be addressed already early in the life course**

Educational differences in effective exit ages underline persisting inequalities in the policy of extending working lives. There is a need to address them more proactively and at early stages of the life course by means of social, labour market and education policies. Educational expansion may lead to improved possibilities to extend working life for an increasing number of people, but the effect will only show in the long run, leaving many cohorts of low-educated older workers striving to work until the statutory retirement age. Educational expansion is also likely to face a point of saturation in countries where levels of education are already high, such as Finland. If a considerable share of people will permanently fail at reaching the retirement age which, in turn, is often a precondition for full pension benefits, adequacy of old-age income will pose an increasingly important challenge. This applies particularly to people with a low education and a low income. Future pension reforms should therefore carefully consider the consequences of socioeconomic differences in extending working lives for inequalities in pension adequacy.

**Educational differences in extending working lives – Trends in effective exit ages  
in 16 European countries**

Finnish Centre for Pensions, Studies 02/2022

<https://urn.fi/URN:ISBN:978-951-691-345-5>

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ISBN 978-951-691-345-5 (PDF)

ISSN 1798-7482 (online)

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